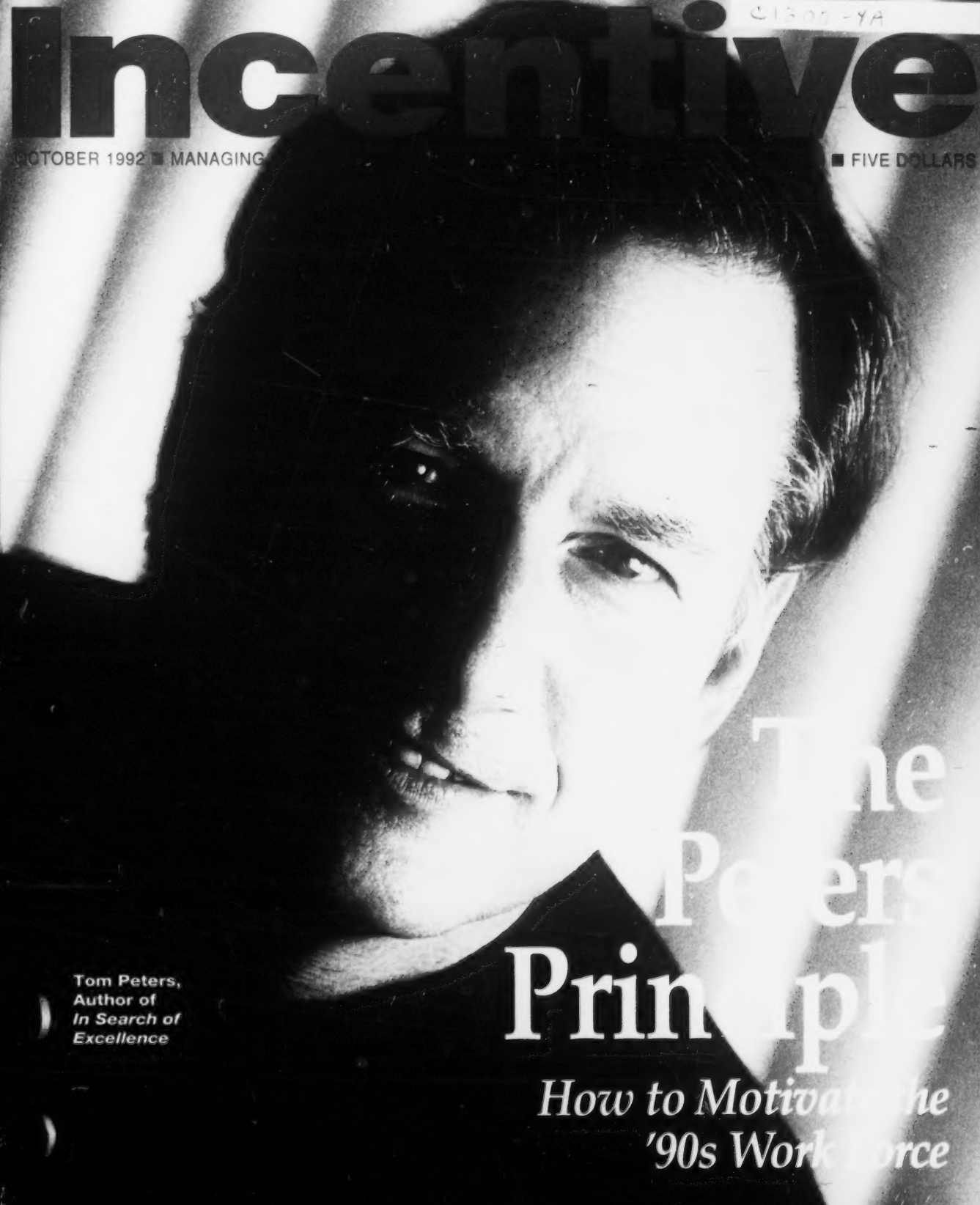


How Diet Centers Gain Clients • Should You Use Buy-Ins?
IBM's New Marketing Ploy • Choosing an Incentive Company
Sears Repairs Its Image • Nancy Austin on Management

Incentive

OCTOBER 1992 ■ MANAGING

■ FIVE DOLLARS



The Peters Principle

Tom Peters,
Author of
*In Search of
Excellence*

*How to Motivate the
'90s Work Force*

Incentive

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Cover Photo: Robert Holmgren

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Travel Advisory: The 1992 FACTS Survey

This year's survey shows travel planners doing more with less, as travel programs flourish in spite of the economy. But something's got to give...

Incentive travel users are spending more on their motivational programs this year, but so far have few gains to show for their investment. In fact, figures from *Incentive's* latest FACTS survey of incentive travel show that this year's campaign results are only slightly outpacing the mediocre returns of 1991.

Respondents, perhaps optimistic that the economic downturn will soon end, say they boosted travel incentive spending significantly. Budget figures of the 180 firms surveyed are a healthy 6.5 percent ahead of actual spending in 1991. In comparison, last year's survey revealed a slim 2.9-percent increase in incentive travel expenditures over the previous year's outlays. While total spending for incentive travel was estimated at \$2.63 billion last year, the 1992 year-end total will come to about \$2.8 billion if the industry as a whole keeps pace with the spending patterns of the survey respondents.

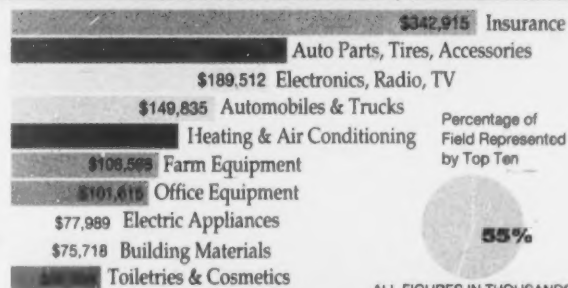
But sales gains have been disappointing, and not nearly commensurate with the increased investment in travel incentive programs. Executives reporting sales results of their incentive campaigns show average gains of just 15.2 percent, only slightly better than the 14.5 percent reflected in last year's study. These results are even more disappointing when compared to the sales increases of the previous six years, which ranged between 17 and 21 percent.

Cost vs. Incremental Sales

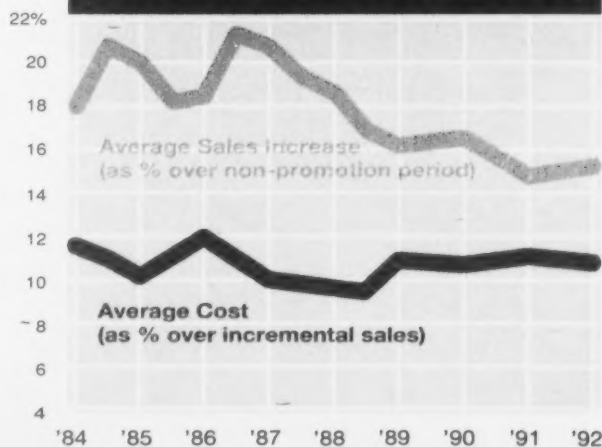
Program costs, as a share of incremental sales, have come down slightly to 10.8 percent, compared to the 11.3-percent average for a similar survey group a year ago. This means that \$10.80 in incentive campaign costs was spent for every \$100 that was gained in

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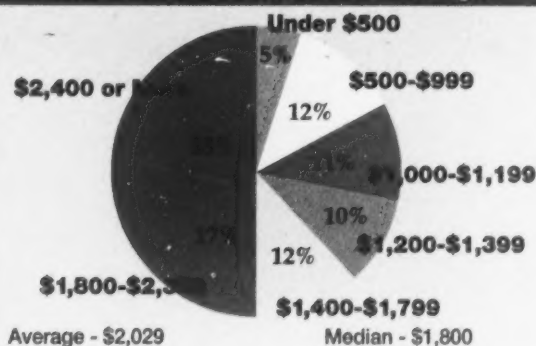
Top 10 Incentive Travel Users



Sales Increase vs. Cost



Cost of Incentive Trip



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incremental sales. Per-person costs for trips have risen to a median of \$1,800, up from \$1,600 in 1991.

Because users have seen a slight drop in the number of qualifying participants compared with earlier surveys, they have had to buy fewer airline tickets and hotel rooms. During the past four years, an average qualification rate of 35 percent had been reported; this year's rate is 34 percent. While significant drops in the number of qualifiers usually lead to higher travel costs, the hefty 12.5 percent increase in unit trip cost reported this year cannot be attributed to the meager decrease in the number of qualifying participants.

Focus on Cost Control

Facing higher travel costs during the recession, users are finding ways to keep the overall cost of their programs

this year; every one of six budget lines averages exactly the same percentage share as last year. (See chart below.)

Cost control takes many forms. Erie Insurance Group of Erie, Pa., for example, has a program with a built-in safety valve. "Our scoring system is commensurate with our trip costs, so containment is not an issue," says Steve Thompson, assistant vice president and manager of marketing at Erie. Thompson adds that he finds recessionary times most conducive to running an incentive campaign. "But in order for the incentive to be worth working for, everything must remain first class," he says, explaining why he hasn't cut back on travel program budgets.

An insurance company with a different approach is West Bend Mutual Insurance Co. in West Bend, Wis. "We have not made any significant changes in our program, with the exception of

from becoming prohibitive. But rather than chopping out any components of their incentive travel budget, most users report revising their qualification criteria to maintain their programs for the same dollars. Surprisingly, no single budget area shows an across-the-board cutback

manager, for example, says, "We look for free promotional items from tourist boards, hotels and DMCs, and spend that portion of the budget to keep the scale of the incentive trip up."

Edward P. Rosania of Travelers Insurance Co. in Wethersfield, Conn., says he looks for savings in several places. Among them: "Renegotiating food and beverage costs and room rates; reducing amounts allocated to non-essentials such as gifts; closer monitoring of food and beverage guarantees; scrutinizing bills more closely; and manipulating issuance of airline tickets to obtain best fares."

At Metromedia Communications Corp. in East Rutherford, N.J., advertising and promotion manager John P. Crawford cuts some cost items and also structures his program to provide savings. "For short-term incentive travel we compressed the overall agenda. Trips are shorter, packed with business content, and frills are cut back. For annual reward travel we moved to a two-tiered program which provides greatest frills to the upper tier while the lower tier has a shorter stay, with qualifiers doubling up in the hotel rooms."

Yet another approach, borrowing funds from other company coffers, works for some. At Konica Business Machines, Windsor, Conn., Robert E. Lee has increased the travel incentive budget substantially. To support the growth and maintain effectiveness, he says the company has "cut back on hospitality at major trade shows."

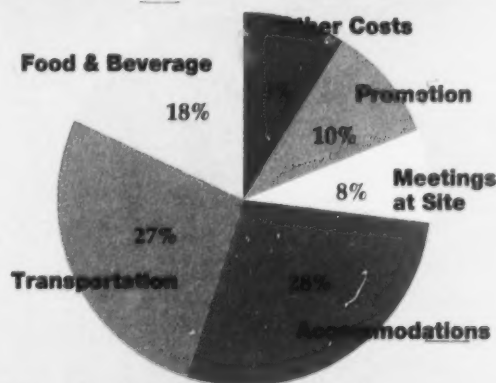
No Place Like Home

While some users say they are controlling costs by moving their incentive trips stateside, 57 percent report still using foreign destinations. (See chart on top destinations, page 153.) Forty-five percent of respondents use a mix of both foreign and domestic venues, but of those, 88 percent said they preferred domestic sites. Accordingly, the bulk of spending—71 percent—falls on the domestic side, with just 29 percent of total expenditures going to international trips.

J. I. Case Co., a maker of farm and construction equipment in Racine, Wis., has taken groups of 300 to incentive destinations as far away as Australia. But Case's Laura Degrott says the firm this year has reduced the

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Where the Travel Budget Goes



*Includes ground transportation, side trips, insurance, entertainment, etc.

making it a closed-ended travel program," says vice president of sales Terry D. Tighe. "Only our top 75 point earners are awarded the trip, while other program qualifiers receive merchandise awards valued at \$1,000."

Besides manipulating the program structure to control costs, many users are looking at small ways to save a few dollars here and there. An insurance company

continued from page 134

length of the trip and limited sites to the continental United States.

Most of the dollars spent on both foreign and domestic incentive travel are for awards to salespeople, who make up 63 percent of the total. That share is up slightly from the 59 percent reported in 1991. About 25 percent is allocated for dealers, and 12 percent of expenditures are for non-sales employees. Company-employed salespeople are the largest group among the sales-force travelers, targeted by 80 percent of these executives. But four other groups receive a lot of attention, 89 percent in all: distributor and dealer salespeople, independent reps and direct-selling personnel.

Distributors and dealers are courted by 24 and 35 percent, respectively. And 9 percent of incentive travel users aim their campaigns at unspecified "others." The range of participants seems to be broadening, with executives targeting an average of 2.7 different groups with their incentive programs, up from 2.3 a year ago.

What Price Travel?

While incentive travel spending is up, it may be coming at the expense of merchandise programs. There is evidence that many of these users are shifting funds from merchandise to travel spending, rather than increasing their total promotional outlay. This year's 6.5-percent increase in travel spending was apparently offset by a 7.2-percent decline in merchandise purchases compared to last year. The result is an almost 2-percent decrease overall in total expenditures for incentive programs. Three out of 10 of these companies also use consumer incentives, and they report a significant increase in spending over last year, investing 14 percent more for consumer premium promotion than they did in 1991.

Bringing in more cash is always an important objective of incentive travel programs, and even more so this year. In recent years, among 10 listed goals, "increasing overall volume" has been chosen as the primary objective by about 65 to 70 percent of survey respondents; in 1991 it was chosen by 70 percent. This year, 82 percent chose it as their principle objective.

Improving morale and good will,

Travel Incentive Objectives

(Percentage of respondents reporting)

- Increase overall volume..... **82%**
- Improve morale/good will..... **52%**
- Sell new accounts..... **43%**
- Introduce new products..... **37%**
- Offset competition..... **30%**
- Move full line or slow items.... **26%**
- Bolster slow season..... **22%**
- Support consumer promotion.. **22%**
- Build dealer traffic..... **19%**
- Prepare for strong season.... **14%**

another popular goal of travel users, is cited by 52 percent, up 1 point from last year. The third most common objective, selling new accounts, gained ground to 43 percent, up from 39 percent last year. Overall, these executives say they use incentive travel to meet an average of about three and a half different objectives—though not necessarily all of them in a single promotion. (See table above.)

More Meetings

More of these users are planning group trips than they did last year, and report larger group size, longer trips and more on-site business meetings. Now,

74 percent use group trips, up dramatically from 59 percent in 1991. Individual travel awards have slipped to 35 percent, down 11 percentage points from last year's survey. The percentages indicate that a scant 9 percent use both types of award. Group size has increased to a median of 88, from 50 in the last study, and trip duration has increased to six nights, up from an average of five, although some respondents have actually shortened their stays. Business meetings are featured by 64 percent of these users, up from 51 percent last year, with the average time allotted to meetings increasing to an average of 10.4 hours during the course of the trip, compared with 9.5 hours last year. Spouses (or other guests) are included by 89 percent, up a couple of points from 1991 figures.

There is a small paradox in these marketers' answers to two questions concerning program structure and budgets. The majority—75 percent, up 3 points from last year—say their programs are open-ended, with all who reach quota qualifying for a trip. Only 25 percent report running closed-ended programs, or working toward a predetermined number of winners. Yet 71 percent (compared with only 57 a year ago) work with a set budget, determined in advance. Only 17 percent base budgets on a percentage of sales forecast or of added sales; another 12 percent use regular promotional funds. But none explained how they manage

Top Incentive Destinations

DOMESTIC

- #1. Hawaii
2. California
3. Florida
4. Nevada
5. Arizona
6. (Tie) New York
Domestic cruises
7. Colorado
8. South Carolina
9. Louisiana
10. (Tie) Texas
Massachusetts

WESTERN HEMISPHERE

- #1. Mexico
2. Caribbean
3. Canada
4. Bermuda
5. Caribbean Cruises
6. Puerto Rico
7. Virgin Islands
8. Bahamas
9. Jamaica
10. South America

OVERSEAS

- #1. United Kingdom
2. France
3. Switzerland
4. Hong Kong
5. Australia
6. Italy
7. Monaco
8. Spain
9. Portugal
10. Austria

Travel Facts In Brief

Programs per year (median)

Domestic: 2
Foreign: 2

Group Trips

Users: 74%
Average number of participants: 167
Median number of participants: 88
Average length: 6 nights

Business meetings

Hold meetings on trips: 64%
Average number of hours: 10.4

Buy-Ins

Allow participants to buy-in: 32%

Average percentage of buy-ins: 30%

Merchandise

Companies that use it with travel: 60%

Consumer travel

Users: 23%
Pay for it: 80%
Trade for it: 26%

Decision makers

President, CEO, exec.VP: 65%
Sales/Marketing director: 20%
Meeting planner: 7%
Product/merchandise manager: 5%
Advertising/sales promotion director: 4%

some bases and/or goals in specific dealer territories where it was necessary to keep the dealers focused and involved in the program. The adjustment, of course, lowered our expectations of increased sales, but the attitude was that we would be worse off with no program at all." He says the adjusted qualification criteria have resulted in a 15-percent sales gain in recent programs, down from previous typical gains of about 20 percent. Participation rates are very high, with

in the preference for full-service incentive companies as the travel source. The surveyed executives chose them in 32 percent of cases, up from 23 percent a year ago. The popularity of local travel agents has dropped to 33 percent, compared with 43 percent in the '91 study. Reliance on in-house staff is still the top choice for a planning source—preferred by 44 percent in this survey, up 2 points from last year.

Measures of Success

In users' setting of program objectives, we found many more seeking to "increase overall volume" than in past years. Unfortunately, that objective hasn't been met for as many people this year. "Total units/dollars sold" is usually the top measurement, and is listed by 51 percent in this year's survey. But this has dropped from 66 percent a year ago. Percent reaching goal or quota is still the second most popular measure of program success, and has gained a bit—to 50 percent, up from 42 percent last year.

More weight is also put on increasing market share—now 30 percent, versus 25 percent in '91. Profit on incremental sales is relatively firm at 24 percent, down a point from last year's survey. And branch or district performance carries a little more weight with these executives—21 percent—than the 17 percent shown last year. The total exceeds 100 percent because the respondents consider, on average, about 1.4 different ways of gauging their end results.

In light of the weak sales increases, perhaps the most satisfied executives this year are those who don't count sales dollars so closely, but concentrate on ancillary benefits that make their travel programs worth the cost. For example, a large electrical manufacturer says, "Being in cyclical industries, we're not tied to awards based on a certain quota. Our overall thrust is on total service, followed by sales."

And an Eastern wholesaler finds a valuable by-product in "getting more non-sales people involved and by letting them participate in trips. We have found over the years that non-sales employees often feel ignored—that without their support the salespeople would fail. By getting active non-sales help and support, our business has grown in the past few years."

to run an open-ended campaign on a fixed budget.

One answer may be the plan of Debra Donahue, incentive coordinator at Bayard Sales Corp., a Philadelphia wholesaler—"We have tailored our programs to be a bit more attainable by changing the requirement structure and enabling dealers to purchase out a greater portion of the incentive." Bayard's program results in a very large percentage of buy-ins for the firm's group trips. Total participation in the trips is 75 percent, including buy-ins.

A large equipment manufacturer who reports using both open- and closed-ended programs has adopted a very flexible policy to cope with the current economic conditions. One of the company's executives says he has "adjusted

90 percent of dealers qualifying for the company's domestic trips.

Survey results show that program planning and duration times have both been lengthened. Start of planning and selection of a destination now averages 42 weeks before the trip, up from 38 weeks last year. And the selling period has been lengthened from 29 weeks to 31. The longest planning time reported in this year's survey was 3 years—the shortest, 3 weeks. Qualifying sales periods ranged from a week-long quickie to 104 weeks for a number of companies that conduct trips every other year.

The majority of quotas for campaign performance are tied to a targeted increase in sales, the approach taken by 53 percent in the present survey, down 4 percentage points from last year. The alternative approach of setting quotas based on the program's budget requirements is now favored by 39 percent, up from 36 percent a year ago. The role suppliers play in controlling costs may be part of the reason for an increase this year

